MEMORANDUM

To: Vermont Electric Utilities, Renewable Energy Providers and Workshop Participants

From: Susan M. Hudson, Clerk of the Board

Re: Issue Framing Memo from November 8, 2007, RGGI Workshop re the Establishment of a Process to Allocate Vermont's Budget of Carbon Credits, and Appointment of Consumer Trustee or Trustees pursuant to 30 V.S.A. § 255

Date: November 15, 2007

Introduction

On November 8, 2007, Public Service Board ("Board") staff, David Farnsworth and Edward McNamara, conducted a workshop to discuss the activities contemplated in 30 V.S.A. Section 255, with the purpose of seeking guidance and recommendations on how to implement these statutory mandates. The purpose of this memo is to outline issues raised at the workshop that will be further developed in position papers to be submitted by workshop participants.

The workshop started with a short presentation providing background on the Regional Greenhouse Gas Initiative ("RGGI"). Participants then focused on 30 V.S.A. Section 255, and discussed their concerns. Broadly speaking, the discussion centered on (1) how Vermont's RGGI allowance budget would be allocated and (2) who the appropriate trustee(s) might be. Some of the participants made the following observations:

- Figure out the allocations first, then consider who would make the best trustee(s) (Department).
- Revenues should be used for projects that are "additional", i.e., incremental, and not for rate relief or for reducing the energy efficiency charge (VPIRG).
- Recognize that this process may have to eventually accommodate a federal program (VPIRG).
- Instead of one trustee, appoint a council, a group of people that represent different interests. The existing Clean Energy Development Investment Committee (Council?) could serve as a model (REV).
- Ratepayers will carry the cost of the program and so ratepayers should benefit. Broad-based input is fine, but it is important to have a clear, long-term vision for the use of the funds so there is continuity (Department).

- It is important to recognize how this program might fit in with a Renewable Portfolio Standard (VEPPI).
- It does not make sense to create a "new structure" when there are already structures in place (Vermont Utility Services).
- The funds we are considering here may not be extensive, so "hardwiring" how they are spent up front, rather than deliberating each year, would be a better approach (Department).

The Allocation Process

The discussion on allocation raised a number of issues, some of which are noted above. One specific allocation issue – a set-aside for voluntary renewable purchases – was discussed in some detail.[1] Staff noted that Section 255 provides a number of principles that should inform future discussions on this topic. Participants spent some time discussing how the revenues from the sale of allowances ought to be allocated, but also spent a significant amount of time on the appropriate process for making these decisions.

On one hand, participants expressed concern that the process ensure administrative ease in allocation decision-making since the amount of potential revenues may not be that extensive. On the other hand, some participants wanted to ensure that, whatever the process is, it be able to accommodate changing conditions, and that it be representative of varying viewpoints. Parties also briefly considered examples of existing structures, i.e., processes involving the oversight of revenue streams that are allocated for specific purposes, including the use of a fiscal agent for the Vermont Universal Service Fund and Energy Efficiency Utility, the Clean Energy Fund, the process associated with NEIL Refunds, the VEPPI 4.100 rule, and the SPEED Program.

Choice of Trustees

Intertwined with the discussion of the allocation process was a discussion of how to determine an appropriate trustee or trustees. The Department recommended that we first determine the allocation issues and then consider who would be best suited to serve as a trustee or trustees. The participants also appeared to recognize that the trustee question could be informed, at least in part, by the models provided by the various existing structures mentioned above in connection with the allocation question.

Next Steps

Participants should file position papers on how the Board should implement the statutory requirements, and the appropriate process for doing so, on or before December 14, 2007.

Further Information

Several participants noted that they need to better inform themselves about RGGI, a process that has been underway for over four years. On the Board's website (http://www.state.vt.us/psb/document/RGGI/rggi.htm) will be a short list of resources that

[1] See Appendix A to this memorandum for further discussion.

participants may find helpful. Staff also recommend that participants rely upon Staff from the Agency of Natural Resources and the Board in educating themselves about RGGI. Staff contact information is set out below.

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Appendix A – A Green Products Set-Aside

Voluntary renewable purchases, sometimes referred to as "Green Pricing" programs are voluntary options offered by electric utilities that allow customers to support new investments in renewable energy technologies that compete in the market with existing generation.[2] According to the Center for Resource Solutions:

> Green pricing customers, an increasing number of whom are non-residential, may be motivated by their desire to reduce pollution, combat global warming, increase energy security, stabilize their energy costs, improve their public image, or other reasons.[3]

In simplest terms, a voluntary renewable purchases set-aside would cause the retirement of RGGI allowances in an amount that reflects the offsetting effects on CO_2 emissions associated with voluntary purchases of green products.

Administratively, a state would set aside a quantity of CO_2 allowances in a designated account for purposes of this set-aside program. For example, as part of its RGGI rule, New York Department of Environmental Conservation (DEC) proposes to allocate annually approximately one percent of its budget – approximately 700,000 tons – to such a set-aside account. The renewable energy generation and attribute credits or renewable energy attribute credits related to such purchases may not be used by the generator or purchaser to meet any regulatory mandate, such as a renewables portfolio standard. Upon application and approval, the state would retire CO_2 allowances in the account in an amount up to the number of tons requested by an authorized applicant in order to reflect the voluntary renewable energy purchases made by the applicant during the compliance period.[4]

In the case where only some of the allowances from the set-aside account are used during a control period, the remaining allowances would be subject to "flowback" provisions. Under the New York rule, after making deductions for tons demonstrated by applicants during a control period, DEC transfers any remaining CO_2 allowances from the voluntary renewable energy market set-aside account to the public benefits account for auctioning.

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[2] Customers may make voluntary purchases in various form, e.g., a fixed quantity block (e.g., 100 kWh of green resources); a percent of monthly usage; a fixed charge per kWh; or a capacity-based block (e.g., 200 watts of solar). *See* Hamrin, Lieberman, and Wingate, *Regulator's Handbook on Renewable Energy Programs & Tariffs*, March, 2006, Center for Resource Solutions at 9. *See also* CVPS's Cow Power Program and GMP's Renewable Energy Rider and Voluntary Renewable Support Rider (PSB Docket 7043).

[3] CRS *Regulator's Handbook* at 7.

[4] Under New York's proposed rule applicant data would have to demonstrate:

(a) the actual renewable energy or renewable energy attribute credit purchases by retail customers, by customer class, in-state during the control period immediately preceding the application date;

(b) the renewable energy or credit representing renewable energy attributes;

(c) the time period when the retail purchase(s) was made; and

(d) location (facility name, unique generator identification number, fuel type, and time period) where the electricity was generated or the renewable energy attribute credit was created.